RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Sept. 12 DJIA 1758.72; PTI 2361; A-D Ratio -7.63
Sept. 19 DJIA 1762.51; PTI 2360; A-D Ratio -7.68

THE PICTURE: Ever since 1958 when I started in this business I've called this report Dow Theory Letters. I've called it that because when all is said and done I am first and always guided by the precepts of Dow's Theory. Over the past few weeks there's been a lot of hysteria in both the market and in the minds of investors. For that reason I want to review some fundamentals as far as market trends are concerned. Is the major trend reversing? In recent Letters (for instance, Letter 946, page 2) I outlined just how we would identify a change in the primary trend. I want to go over that picture once more. And it's most important that you follow this logic (because apparently almost nobody outside my subscribers either follows or has access to Dow Theory thinking).

Our focus for a possible reversal in the primary trend of the market is always the SECONDARY REACTION -- and what the D-J Industrial and Transportation Averages do AFTER a secondary low is established.

In the case of a primary reversal from bull to bear market, here's how it works. Following a full secondary correction (which should last 2-3 weeks or longer), the inevitable corrective rally will take place. If that rally succeeds in advancing BOTH Averages to new highs, then the primary bull trend is taken to continue (in other words, new highs in both Averages will reconfirm the primary bull trend).

However, if the rally following the secondary reaction fails to take BOTH Averages to new highs, and the market then turns down again, we have to be extremely cautious, and we have to be ready to take action. Here is why. If, on the decline, BOTH Averages then break below their secondary low points, the primary trend will have reversed from bull to bear.

This line of reasoning pertains directly to today's market. From its March 31 peak of 830.84 (see page 1 chart) the D-J Transportation Average declined to an August 4 low of 709.13 -- and this action represented a full secondary correction for the Transports. Now let's turn to the Industrial Average. From its July 2 high of 1909.03, the Industrials dropped to an August 1 low of 1763.64. That action, too, represented a full secondary correction for the Industrials.

Next came the rally to the recent September highs -- Industrials to a new record high of 1919.71 and Transports to a non-confirming peak of 790.13 (Transports halted their advance well below the preceding record high of 830.84). Thus, the pattern of the Averages was set for a potential bear signal.

The bear signal points (as I have stated repeatedly, see Late Notes, last Letter) were 1763.64 for Industrials and 709.13 for the Transports. A decisive breaking of BOTH of those levels would signal a reversal of the primary trend from bull to bear.

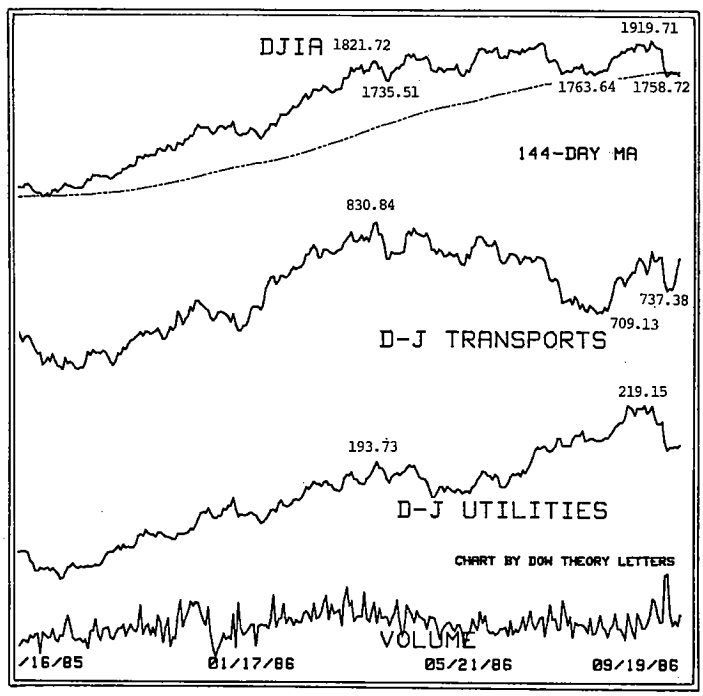
As of this writing the Industrials have broken that point -- but the Transports have most definitely NOT. And we must keep that non-confirmation by the Transports firmly in mind. Until or unless BOTH Averages break their secondary points we are STILL IN A PRIMARY BULL MARKET!

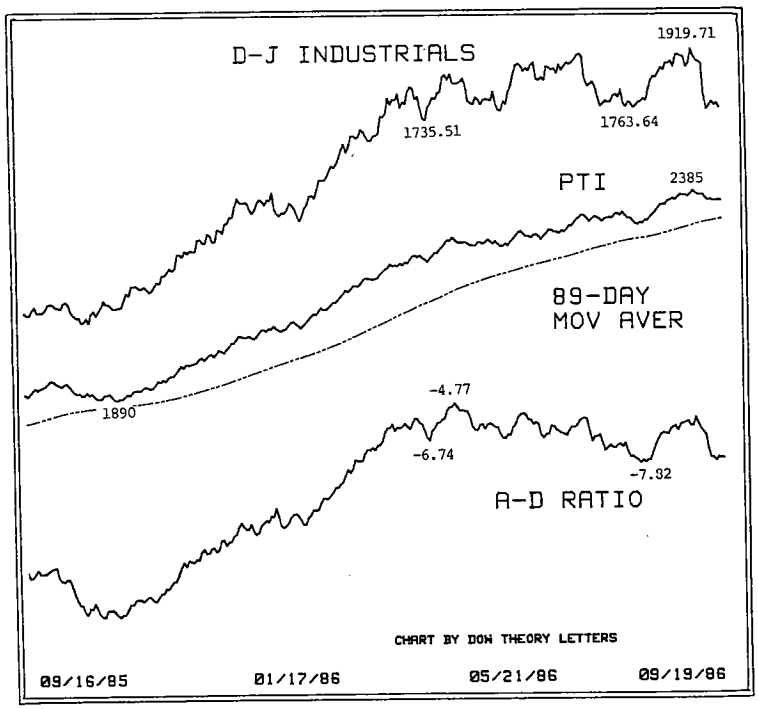
Then came the scare. On September 11 the stock market on record volume of 237.5 million shares, dropped precipitously with Industrials off 86.61 points and Transports off 33.63 points. The next day, September 12, saw a new record volume day (242 million shares traded) with Industrials plunging 34 points to 1758.72 and Transports dropping 11 points to close at 737.38. By the close, Industrials had penetrated their secondary lows, but the Transports refused to confirm, holding by a wide margin above the 709.13 level.

By September 12 Industrials had slid to a closing low of 1758.72. But Transports on the same day closed at 737.38, a full 27 points ABOVE their critical level of 709.13. As far as Dow's Theory was concerned, NOTHING had been proved by the bears! Despite this -- gloom, pessimism and talk of "a new bear market" prevailed. Of course, this is exactly the kind of market action and public sentiment that a bull loves and cherishes. The bull adores a big build-up in fear and bearish sentiment -- all within a bull market that refuses to break down.

FURTHER MARKET COMMENTS: There are a number of phenomena that I want to discuss at this time. The first is this: I read dozens of investment advisory reports each week, and I must say that I was surprised last week to read literally nothing about the D-J Transportation Average and its refusal to confirm the Industrials on the downside. On the contrary, the great majority of publications have now turned bearish, with many announcing that a major bear market has already started.

It is extraordinary that at the recent highs everyone and his brother pointed to the fact that the Transportation Average had failed to confirm the Industrial Average. But at the September 12 lows, literally nobody noted that the Transports refused to confirm the Industrials on the downside! Their minds, evidently, were made up -- people just wanted to be frightened and bearish.





The D-J Transports were not the only indicators that refused to confirm on the downside during the sell-off to the September 12 lows. At those lows the advance-decline ratio for the NYSE (see page 2 chart) did not confirm. And most interestingly, the Dow A-D (i.e., the A-D line for the 30 Dow Industrial stocks) refused to confirm the new low in price.

Thus on September 12 although the Dow broke below its August 1 secondary low of 1763.64, neither the Transports nor the A-D ratio for the NYSE nor the Dow A-D would confirm. At the September 12 lows we were seeing major resistance to further decline.

Another curious phenomenon is that the stock market panic of September 11 and 12 took place this side of a bear signal. In other words, usually bear market panics occur AFTER the Averages have violated critical low points and AFTER a Dow Theory bear signal has been given. But the panics of September 11 and 12 came before any bear signal had been given. This makes me wonder whether the panic wasn't largely a product of programmed selling. It is also curious that the public should receive such a dramatic "bell-ringing warning" (i.e., the panic) without the Dow Theory ever having signaled that a bear market was in force.

At this point, I am obviously placing particular emphasis on the ACTION of the D-J Transportation Average. Remember, it was the Transportation Average that refused to confirm the weakness of the Industrial Average. And it was the strength of the Transports that gave the lie to those who claimed that a new bear market had started. I'm going to state this again: AS LONG AS THE D-J TRANSPORTATION AVERAGE HOLDS ABOVE 709.13, WE WILL CONCLUDE THAT THE PRIMARY TREND OF THE MARKET REMAINS BULLISH.

In fact, even if the Dow breaks to a new low below its September 12 low of 1759.98, as long as Transports hold, it's STILL a bull market. Let me put it this way, as long as Transports hold above 709.13 I don't care where the Industrials go on the downside! Actually, a new Industrial low below 1759.98 would simply serve to scare the public even more -- and thus make the technical structure of this bull market even stronger.

I might add that with the rally of September 17 the Transportation Average looked so strong that I sincerely doubt that any further market weakness would take the Transports below the critical 709.13 level.

Here's another useful technical indicator. I've talked about the NYSE short interest ever since I started these reports. And I've used the short interest (during bull markets) as an indication of investors' skepticism regarding the primary bull trend. It is therefore of major interest that the annualized short interest (the current short interest divided by the average volume for the past 12 months) is currently at a record high of 2.99. This means that the total NYSE interest is now three times the average daily volume figured over the past year.

I don't care how you cut it, that's a lot of skepticism to appear within a primary bull market. A bull market that won't confirm on the downside (and one with a record short interest built into it) is, in my opinion, a powder keg. As matters stand, I would expect a high-level market consolidation from here -- and then somewhere ahead a new breakout to the upside.

Question: Russell, I note that many of the OTC and Amex stocks were hit very hard by the decline. Isn't that a bearish omen for the entire market?

Answer: Not necessarily. If you remember, I have been saying all along that the operative concept for stock investors at this time is SAFETY and INCOME. This safety and income concept fits the blue chips; it most definitely does not fit most of the OTC and AMEX stocks. When the market corrects sharply, investors feel confident with stocks that promise safe earnings and dividends and, therefore, safe and sure income. But during a sharp reaction investors are afraid to sit with low quality, low or non-yielding shares. The low quality stocks will have their day. But that day lies ahead -- maybe far ahead.

Question: What effect have the buy and sell computer programs had on the market and on the Dow Theory?

Answer: The computerized trading programs are a relatively new phenomenon, and we haven't had enough extended experience with them to be able to give the final answer on that question. We do know that the programs make for fantastic volatility. For instance, on September 11 when the Dow dropped 87 points, it was estimated that computerized trading programs made up about 40% of the 237 million shares of trading.

Frankly, I find the automatic trading feature of the computer programs and the extreme volatility caused by the programs to be a MENACE. If I had my way, the NYSE and the SEC would outlaw the computer programs. I further believe that the programs will have the effect (which is exactly what the exchanges do NOT want) of scaring the public out of the markets. Programmed trading has nothing at all to do with investing, and I feel there is enough gambling and scalping on the exchanges already without the addition of the computer programs.

Question: The September 15 issue of Barron's interviews Bob Farrell, the brilliant chief analyst for Merrill Lynch. Farrell believes we are still in a primary bull market, a bull market that began in 1974. Farrell feels that we have never (since '74) seen the kind of super-speculation that he associates with the final wind-up of a big bull market. Farrell now looks for a market correction and he states: "Ultimately, I think the decline will be 15% to 20%. This first step down might be 10% or 12%."

The question is: Wouldn't a decline of say 15% to 20% set off a Dow Theory bear signal? And if so, isn't Farrell really talking about a possible bear market rather than just a correction?

Answer: The Industrials gave their half of a potential bear signal. If the Transports confirm (and I emphasize the word IF) then under Dow Theory a bear market will have been signaled. If that happens, then no man alive (and this includes Bob Farrell and Richard Russell) can possibly know how far the bear market might travel. The bear market could extend as far as Farrell's 15% or 20% or it could travel less — or considerably more. I repeat, NO ONE knows. My own feeling is that it is best to have no preconceived notions about duration or extent if we do get a bear

signal. As far as classification is concerned, if the decline is slight, history will (in retrospect) classify it as a correction. If the decline is a whopper, history will (in retrospect) call it a bear market.

Question: Russell, you have been bullish on the stock market all along. But for the sake of argument, let's say that the Averages do signal a bear market in the period ahead. In that event, you would have to reverse your position. Wouldn't that make you feel a bit foolish?

Answer: The answer is no. If you think writing a stock market report is an ego-booster, forget it. The people who do best in the market are the ones who have NO egos. I can spin a thousand scenarios or write a 20-page tome on why I think we are in a bull trend, but if the market hands down its verdict, and that verdict is the opposite of what I think should happen, I'll get myself in harmony with the market so fast your head will spin. True, I always give the prevailing primary trend the benefit of the doubt, but if the Averages tell me that the primary trend has reversed -- Richard Russell reverses with it. The one unforgivable sin any analyst or investor can make in the market is not (as you might think) being wrong -- IT IS STAYING WRONG.

Question: If a bear market is signaled here in late-1986, when would it have started?

Answer: Under Dow Theory, a bear market starts at the point where the Averages recorded their last JOINT (or confirmed) HIGHS. It was back in March 31 that BOTH the Industrials and Transports established their last joint highs. Or some may prefer to date a bear market at the point where the A-D ratio (which is a proxy for the majority of stocks on the NYSE) hit its high. Under that reasoning, we would use April 21 as the start of a bear market. Still others may want to use the final high points of the major composite averages such as the S & P 500 or the NYSE Composite. Both of these broad Averages hit their highs on September 4.

Question: All right, Russell, I've absorbed all the information that you've presented above. But now I want your gut feelings, your own instinct about what you think might happen in the months ahead.

Answer: I don't know what it's worth, but here is my guess. I'm guessing that this market is going to be stuck in a trading range, and maybe a high level trading range for quite a while. I don't know how wide a trading range, but I'll guess again maybe Dow 1600 to 1850.

There is no question but the yield on stocks is low with the Dow yield at 3.8% and the S & P 500 yield at 3.4%. P/E ratios are on the high side at 17.6. But on the other hand, the monetary background is still strong. And I agree with Bob Farrell that this bull market has never really gone bonkers on the upside. And bonkers is what I would expect in a major bull market that has been in force since 1974.

All in all, I believe there are enough positives and negatives built into the equation to push the market into a trading range. And of course, I'm thinking of another phenomenon, one which I've discussed many times before in this Letter. And it's this: the stock market will do whatever it has to -- to drive the greatest number of people up the proverbial wall. And a trading range would do just that — drive both the bulls and the bears up the wall (and, of course, the computer trading programs have driven investors half-way up the wall already!).

Question: On September 18 Western Pacific Industries (WPI in the D-J Transportation Average) exploded over 20 points, thereby causing the Transport Average to surge. Transports on that day rallied far above their bear points of 709.13. But is such a move in an Average (brought on by a surge in a single stock) valid?

Answer: I never, ever explain away a move in one of the Averages. I take the action of the averages at face value -- no explanations necessary. The fact is that the Transports have acted strong ever since Sept. 12, and that strength wasn't solely because of WPI. If we were to dissect every move in the Averages, we'd never trust any market action. No, accept the September 18 rise in the Transports as valid.

INVESTMENT POSITION: Robert Rhea, the great Dow Theorist of the 1930s, used to say that "half a bear signal is no better than none." And that's exactly where we are today. Industrials have given half a bear market signal, but the Transports have steadfastly refused to confirm. Conclusion: It's still a bull market, and therefore our friendly bull remains in the box. Meanwhile, Wall Street remains a place of "fear and loathing." Let them fear, let them loathe, we'll have no bear market while the Transports act strong. And the Transports (despite further weakness in the Industrials) have been putting on a bullish show of strength over the past week!

I feel that this is a time to sit tight and watch the show. Rumors are flying, computer programs are whirring, Bank of America has plunged below 10 -- but we'll stay calm and follow the old Wall Street adage which states, "Don't do something, just stand there."

NEW YORK: Coming back on the plane from New York City several months ago I started thinking about how NYC has changed and what I miss most about "the old New York." Then about a week later Benny Goodman died, and that sad event stirred up nostalgic memories of my youth.

I guess more than anything else, I miss the excitement of the early 1940s jazz. Around 1939, '40, '41 and '42 (during my high school days), Gotham was throbbing with what I term the New York school of black jazz. That was the music I really loved. Back in those days 52nd Street was the jazz center for "downtown" New York. But "uptown" in Harlem, that was where jazz history was really being made (not that I realized it at the time).

Little night clubs dotted 52nd Street between Fifth Avenue and Seventh Avenue in the old days. I, and a few friends, used to hang out there on weekends, and for about four years I ate, slept, and dreamed nothing but jazz. We jazz-hounds were considered very off-beat by our square high school friends, because in those days jazz was not generally listened to by whites (who preferred swing while doing the "jitterbug" or the sedate fox trot). But we few, we were the secret aficionados of a different brand of music. I guess you could call us the pre-War hippies. Little did we know that we were living through what historians now refer to as the "golden years of jazz."

My jazz idols of the 1940s were trumpeters Roy Eldridge and Louis Armstrong, saxmen Coleman Hawkins and Lester Young, plus the bands of Count Basie and Duke Ellington. But Roy Eldridge (known as "Little Jazz") was my absolute favorite musician. I would go anywhere, anytime, to see Little Jazz play. Roy was the musical bridge between old-timer Louis Armstrong and new-comer Dizzie Gillespie. Roy, with his amazing intensity and virtuosity, was the inspiration for Gillespie and many of the later jazz trumpet greats.

Billie Holiday (known as Lady Day) was my favorite singer. She used to sing on 52nd Street in a place called Kelly's Stables. Billie was accompanied by the house band, a trio called the King Cole Trio. The leader of this trio was Nat "King" Cole, who later became famous on his own as a pop singer. In those days Nat just played guitar with the trio. Tuesday through Sunday for a 50-cent rum coke you could stand all night at the bar at Kelly's and hear Billie sing. The song everyone asked for was the haunting "Strange Fruit," which was a song about a Southern lynching ("black body swayin' in the southern breeze, strange fruit hangin' from the poplar tree"). That song shocked and often embarrassed the white audience -- but it made Billy Holiday famous.

Yes, 52nd Street was where the mid-towners could hear jazz, but it was up in Harlem at a place called Minton's where the real musical excitement occurred. Minton's was a music bar in the Theresa Hotel run by a famous retired band leader named Teddy Hill. Every night after they had completed their regular downtown shows, the top black musicians would gather at Minton's for jam sessions. Those jam sessions were amazing, and on any given night you could see and hear the greats of jazz playing together, legends such as Charlie Christian (he invented the electric guitar, and later starred with Benny Goodman), Lester Young, "Hot Lips Paige", Thelonius Monk, J.C. Higginbotham, Benny Carter, Coleman Hawkins (father of the tenor sax), Dizzie Gillespie, Roy Eldridge, Count Basie, on and on.

Since those sessions usually began around midnight, I had a real problem getting there. I and one or two of my friends would wake up around 12am, quietly dress, and then we would sneak out of our houses. We'd take the subway up to 125th Street, then walk down to 116th Street to Minton's. In those days it was kind of chancy for three white boys to walk through Harlem at 1am in the morning -- but it was nothing like the chance you'd take today. Today, I seriously doubt if we would make it.

Only once did we run into trouble. One night as we rounded the corner of 116th Street, six very large Harlem dudes stopped us. Whipping out their wicked looking snap-knives, they suggested that we pay them 50 cents each for the privilege of "walking through their territory." Before those Harlem dudes could blink, I was gone. In those days I was "all-city" in the 100-yard dash, and that night in Harlem I gave the guys a demonstration of my talent. I'm sure I did something close to the school-boy world record for the dash as I sprinted nine blocks to the subway station.

Later I heard that my buddies had been relieved of their wallets and their watches, but otherwise they were OK. Of course, times have changed. Today, my buddies might well have been cut up or killed just for kicks. Things were calmer back in the early 1940s and less savage (at least on the streets of New York). But we had great times, and life was exciting, and I lived through a fascinating bit of American history. I might add that America has produced only two recognized art forms -- jazz and cartoons (comic strips).

COMPOUNDING TO RICHES: Veteran readers know that I have always been an advocate of compounding your money. Compounding is the surest and the safest way to accumulate a fortune, but compounding requires a few disciplines. These are (1) intelligence, and (2) perseverance. Intelligence is needed to recognize the value of compounding. Perseverance is needed in order to stay on the path.

Over the years I have presented many studies and examples -- all in an effort to demonstrate to readers the fabulous benefits of a program of compounding. But last week I received what I must say is the most dramatic illustration of compounding that I have ever come across. The example came from a fine investment service, Market Logic, 3471 N. Federal H'way, Ft. Lauderdale, FL 33306.

In this study, they assume that one investor opens an IRA at age 19. For 8 successive years he puts $2,000 into that IRA, and he obtains an average growth rate of 10% (interest plus growth). After 8 years this fellow makes no more contributions. He's finished. A second investor makes no IRA contributions until he is age 27 (the age at which the first guy finished his contributions), and then he contributes $2,000 each year until he is 65 (all at the same theoretical 10% annual growth rate).

As you can see on the chart, the absolutely incredible result is that the fellow who contributed earlier with only 8 contributions ends up with more money than the fellow who made 39 contributions (starting his contributions at a LATER date). This demonstrates the power of compounding THROUGH TIME. The difference in the two investors' results is that the first had 8 years more of compounding. Those early 8 years were worth more than the entire 39 later contributions of the second investor.

Have you ever wondered how some of the great American trusts grew to hundreds of millions or even billions of dollars? I'll tell you. They did it through compounding at low or zero tax rates -- and through TIME. You can follow their example. How? With top-grade tax-free municipal bonds -- a plan of annual or semi-annual investments -- and time. End of lesson (but you might show this one to your kids).

	INVESTOR A		INVESTOR B	
Age	IRA Contribution	Year-end Value	IRA Contribution	Year-end Value
19	$2,000	$ 2,200	-0-	-0-
20	2,000	4,620	-0-	-0-
21	2,000	7,282	-0-	-0-
22	2,000	10,210	-0-	-0-
23	2,000	13,431	-0-	-0-
24	2,000	16,974	-0-	-0-
25	2,000	20,872	-0-	-0-
26	2,000	25,159	-0-	-0-
27	-0-	27,675	$2,000	$ 2,200
28	-0-	30,442	2,000	4,620
29	-0-	33,487	2,000	7,282
30	-0-	36,835	2,000	10,210
31	-0-	40,519	2,000	13,431
32	-0-	44,571	2,000	16,974
33	-0-	49,028	2,000	20,872
34	-0-	53,930	2,000	25,159
35	-0-	59,323	2,000	29,875
36	-0-	65,256	2,000	35,062
37	-0-	71,781	2,000	40,769
38	-0-	78,960	2,000	47,045
39	-0-	86,856	2,000	53,950
40	-0-	95,541	2,000	61,545
41	-0-	105,095	2,000	69,899
42	-0-	115,605	2,000	79,089
43	-0-	127,165	2,000	89,198
44	-0-	139,882	2,000	100,318
45	-0-	153,870	2,000	112,550
46	-0-	169,257	2,000	126,005
47	-0-	186,183	2,000	140,805
48	-0-	204,801	2,000	157,086
49	-0-	225,281	2,000	174,995
50	-0-	247,809	2,000	194,694
51	-0-	272,590	2,000	216,364
52	-0-	299,849	2,000	240,200
53	-0-	329,834	2,000	266,420
54	-0-	362,817	2,000	295,262
55	-0-	399,099	2,000	326,988
56	-0-	439,009	2,000	361,887
57	-0-	482,910	2,000	400,276
58	-0-	531,201	2,000	442,503
59	-0-	584,321	2,000	488,953
60	-0-	642,753	2,000	540,049
61	-0-	707,028	2,000	596,254
62	-0-	777,731	2,000	658,079
63	-0-	855,504	2,000	726,087
64	-0-	941,054	2,000	800,896
65	-0-	1,035,160	2,000	883,185
Less Total Invested		(16,000)		(78,000)
Net Earnings		$1,019,160		$805,185
Money Grew		64-fold		11-fold

NOTES & QUOTES: The automobile business is not going to get any easier. Hyundai (S. Korea) exported 138,000 cars in the first half of '86, up 200% from last year. Next year two more S. Korean auto makers, Daewoo Motor Co. and Kia Motors Corp. will introduce their cars to the US. The low priced Hyundai now retails for just under $5,000 and is selling well here. US and Japanese auto makers are wondering, "What next?"

* *

London is getting ready for "The Big Bang" scheduled for October 27. Last week the London exchange merged with a group representing 200 big banks and security firms to form the International Stock Exchange. The ISE will compete with stock exchanges around the world -- but there will be one big difference. The ISE will be open for trading around-the-clock, 24 hours a day! Coming next: It wouldn't surprise me to see the NYSE move toward the same thing. It's a global market today, and the coming trend is going to be toward 24-hour trading with buyers able to buy any of the world's major stocks night or day.

* *

The newspapers and magazines are loaded with stories of the formerly-great Texas millionaires and billionaires who are now being pressed against the wall. In almost every case, from the

Murchisons to the Hunts, the troubles stem from three causes: (1) deflation in values, (2) debt, and (3) greed.

* *

The Sept. 14 NY Times relates the troubles of "Big John" Connally, who is currently besieged by creditors claiming millions in unpaid bills. Connally, formerly one of the most powerful men in Texas, has been swamped by 35 lawsuits claiming non-payment of debts or failure to meet contractual agreements. What makes a rich man like Connally go for the financial moon? Is it the urge for excitement, the desire for ultimate financial power, or is it a psychological cover–up for low self-esteem? I've often pondered this question, but the answer is probably different in each individual case. Below are some excerpts from the Times article:

Some see tragedy of Shakespearean proportions in all this, for Mr. Connally, already wealthy when he began six years ago, may now well be forced in his twilight years to return to the site of his impoverished boyhood in south Texas.

To the astonishment of friends, Mr. Connally, a lawyer, did not incorporate his main business so that he could shield his personal wealth from any business problems. The unincorporated partnership with Mr. Barnes means that the demands of creditors are crashing down on the two men personally, except for the troubled energy operations which are held in a publicly traded company, Chapman Energy Inc. of Dallas. Both men could be forced into personal bankruptcy as a consequence of the troubles of the partnership — particularly the real estate holdings, which are causing most of the trouble for Mr. Connally and Mr. Barnes.

"Connally had it all — four houses, a great family," observed a lawyer who knows him. "Why did he do it? At age 69, what would he have done with the money if he got it? For him to risk it all is sad." But friends say that Mr. Connally did not incorporate because he simply did not foresee the possibility of failure. "They are very confident people," said Walter B. Hailey Jr., an old friend of Mr. Connally and still a partner with him in Chapman Energy. "They did not think they could fail.

Why did Mr. Connally risk it all at his age? "Because he enjoys building things," Mr. Hailey said. "Money is only a way to keep score for that man. If everything went to hell today, next Monday he'd be back putting together deals."

* *

This is football season, and the owner of the Miami Dolphins has grown very optimistic. Joe Robie is about to build the nation's first pro sports center to be financed entirely by private means. Robie is going to build a $100-million stadium and he is putting up his football team as collateral. Robie hopes to pay off the loan by putting up 216 luxury skyboxes for lease (10 years) at lofty prices of $290,000 to $650,000 each. Then he will offer 10,000 individual "Club seats" for between $6,000 and $14,000 each. But the new tax bill will not allow leasors to write off these seats and boxes. I know there is a lot of loose cash in Miami, but the Miami stadium should provide the supreme test!

* *

This is the 350th anniversary of the great Harvard University. Ironically, Harvard's current President is Derek Bok, a Stanford graduate. Harvard was founded back in 1636 with a grant of $400 from the Massachusetts Bay Colony. Harvard was named after John Harvard when he gave the school (in 1638) $500 and a collection of 400 books! Harvard has an astounding endowment of $2.7 billion. The University earns $1,000 every 40 seconds on its endowment investments. Two-thirds of today's Harvard students receive some form of aid from the University. As a comparison, Harvard's $2.7 trillion covers only 16,000 students. The University of Texas has the nation's largest endowment at $2.9 trillion, but that endowment has to cover 160,000 students.

* *

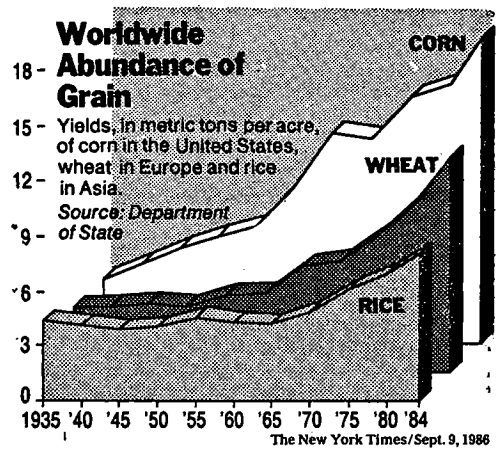
An interesting comment from Gary North's Remnant Review (PO Box 8204, Ft. Worth, TX 76124): "Where would I go if I were able to move, pull income from a national source, and then build up a local business? There is no question: Houston. You can now buy three-bedroom, two-bath homes in middle-class neighborhoods for $45,000 or less with $1,000 down, 9% interest and no points. How? Auctions by the FHA. Hundreds of these homes go on the auction block every week. I know of one case this summer where a man got a 3-2 home for $19,000. ... If I were the owner of a high-tech firm in Silicon Valley, I would sell my firm's high priced real estate, move to Houston, escape labor unions, get into a zero income tax state, and buy up the services of all the desperate middle managers I needed at bargain basement wages. A worker could sell his $250,000 4-bedroom California home and move into a mansion in Houston."

* *

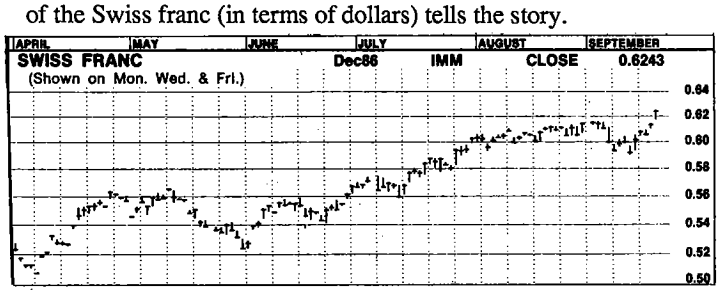
This from the Forecast Letter, Sherbourne, Mass. 01770: "In the past three months, America's food balance of trade has turned negative ... a first class shocker for the politicians in Washington. How is this happening? Canned food! That's one of the biggest causes! Go into any supermarket and study the canned food on the shelves. It will really open your eyes. You will find brand after brand distributed from a point on the East or West Coast ... but grown and packed in Mexico, Spain, the Philippines, Brazil, Portugal, etc. In the past year, the number of cases of imported canned food has grown ten-fold — from 4 million to 40 million cases."

* *

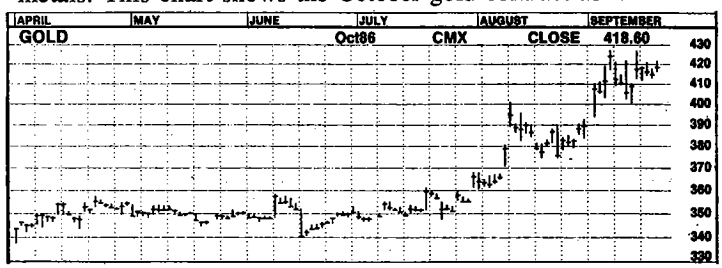
Science has produced a world agricultural revolution. Due to horticultural advances and genetic engineering, many new and amazing hybrid plants have been created, plants that are disease-resistant, drought-resistant, high-yielding. The result: a huge increase in return per acre for many progressive farmers throughout the world. This chart tells the story. Since 1950, for instance, rice yields per acre in Asia have doubled and in Europe wheat yields have tripled. This phenomenon has meant a big drop-off in imports for formerly food-short nations. In many cases, nations that were importers of food have now become exporters. Unfortunately, US farmers are now feeling the painful results of the great leap forward in agriculture. Prognosis: there will be dramatically fewer farms in the US. The weak hands are fated to drop by the wayside.



CHARTS: Last week the dollar broke to a new low. This chart of the Swiss franc (in terms of dollars) tells the story.

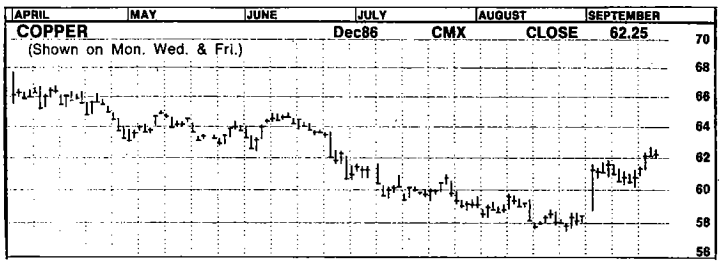


Gold has not been blind to the story, nor have the other precious metals. This chart shows the October gold contract as it breaks

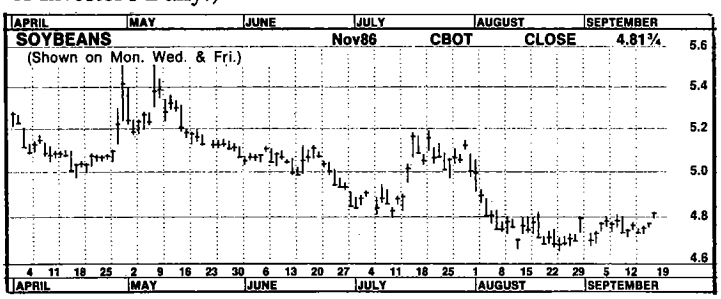


above 430. A new high for gold, so there's no argument — the major trend of gold and the precious metals (as I've stated before) is UP.

What's just as interesting is the bottom and upside reversal in copper. Copper is an industrial metal. Why is it pushing up now? Could be fears of inflation, or it could be an improving outlook for the economy. Time will tell, but the interesting thing is the new move in copper.



The grains have been a disaster for farmers and commodity traders. But study this chart of the beans. It looks like a bottom is forming. So all in all, I am guessing that commodities in general have seen their lows. That doesn't necessarily mean inflation (as many experts are warning). But it could be an adjustment in the price of "things" against the new weakness in the dollar. (Charts courtesy of Investor's Daily.)



GOLD, PRECIOUS METALS: The US is coming out next month with its first new gold coin in 53 years. The coins will be legal tender and therefore probably not subject to sales taxes. The coins will also under certain conditions be legal for IRA accounts; it's the only coin to be so honored. Furthermore, as a spur (I guess) to US gold mine production, the new gold coins will be minted of US-mined gold only.

With the arrival of the new bull signal for gold, interest in the precious metals has become intense. The issuance of the new gold coin has heightened the intensity (my older subscribers remember when the US government was doing everything possible to downgrade and denigrate gold). The yellow worm has turned, and as far as the characters in Washington are concerned, gold has won the war (as it has for 5,000 years) and gold is now IN.

Due to fears of South Africa's demise, platinum has been the star precious metal of 1986, and silver has been the dog. It figured to be. Why? Well, nobody was in platinum, and even platinum coins are a relatively unknown item to the average person (yes, the Noble does exist; it's a very pretty one-ounce coin minted in England for the Isle of Man, but most people have never seen one). As far as silver is concerned, that was touted everywhere as "poor man's gold" and the place where the vast profits were supposed to reside. I kept telling subscribers that gold, not silver, was the preferred precious metal, and I hope my readers listened to me.

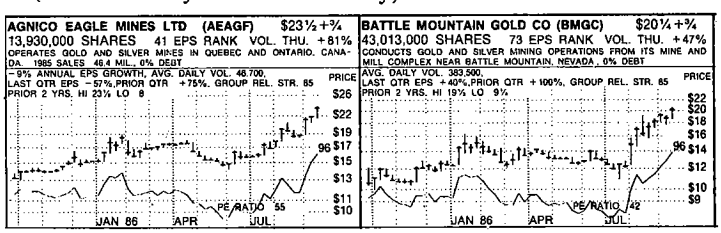
The accompanying chart is courtesy of Harry Browne's Special Report (PO Box 5586, Austin, TX 78763). The chart is a bit of a shocker. Here we see 11 years of history for the gold-silver ratio. Do you remember a few years back when all the experts were saying that the normal gold-silver ratio was 15, and that silver was an unbelievable bargain because it was only a matter of time before the metals went back to the old 15 to 1 ratio again? It never happened that way. Instead, gold rose to a recent level to where an ounce of gold bought 75 ounces of silver. Thus the genius-play of

the last five years in the metals would have been to buy gold and short silver. Ah, the brilliance of hindsight!

Where are we now? Gold has been looking good -- it moves up easily and gives ground grudgingly. Subscribers who have been accumulating gold coins (as I have advised) are showing nice profits.

I am asked constantly about non-S. African gold mines. Some of the legitimate N. American mines are: Agnico-Eagle, NASDAQ - AEAGF; Battle Mt., NASDQ - BMGC; Echo Bay, AMEX - ECO; Campbell Red Lake, NYSE - CRK, and Homestake, NYSE - HM. All of these are selling at high P/E ratios. These ratios will only be justified by a much higher price for gold (and, of course, this is exactly what some advocates of the gold bull market are predicting).

I've been listing and showing charts of some of the leading N. American gold stocks, but I've been wishy-washy about recommending their purchase. I guess I still feel a bit wishy-washy about the stocks although I've been a strong advocate of buying the coins. Below are several charts of N. American gold mining stocks (charts courtesy of Investor's Daily).



LATE NOTES: Although Industrials have broken below their bear signal level of 1763.64, the Transports, which have rallied strongly, were (as of Sept. 19) an amazing 70 points ABOVE their comparable bear signal level of 709.13. Conclusion: The Averages, as interpreted under Dow Theory, are far away from giving a primary bear signal. The Dow Theory is firm in stating that it's still a bull market.

My PTI recorded its high on Sept. 4 at 2385. So far (see page 2 chart) THE PTI has dropped only 25 points, and the PTI is still far above its moving average. ... Despite the September market decline, neither the A-D ratio nor the A-D line for the 30 Dow stocks has confirmed the weakness in the Dow.

As of Sept. 19 the A-D ratio (NYSE) had declined on 9 of the previous 10 sessions -- an extraordinary series of down days for any kind of market. This suggests a tremendous amount of bearishness arising within a primary bull market. When a bull market generates too much skepticism and gathers too many bears, it usually turns on the bears and destroys them. It would not surprise me to see exactly this occurring in the weeks ahead.

Considering that we have not received a primary bear signal, there is currently a tremendous amount of bearishness on Wall Street. The latest short interest figures for the NYSE show a rise of 3.2% to a record 387 million shares sold short.

NEXT MAILING: Oct. 8